

Cost of Government Day[®] Report Calendar Year 2003

Eleventh Edition

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OVERVIEW OF RESULTS

Definition

Cost of Government Day is the date of the calendar year on which the average American worker has earned enough gross income to pay off his or her share of spending and regulatory burdens imposed by all levels of government, federal, state and local.

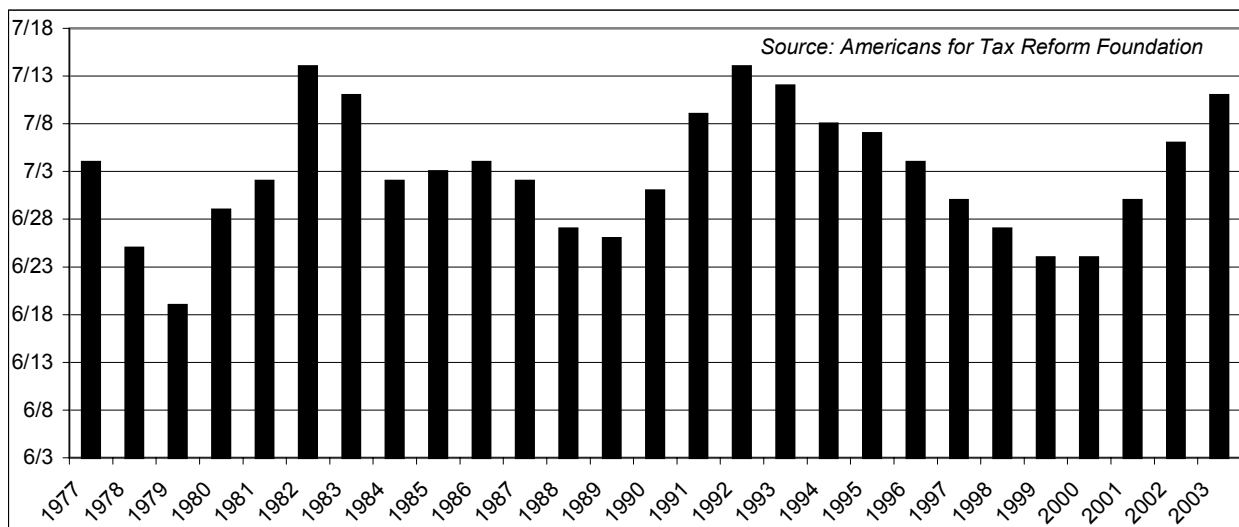
Cost of Government Day 2003

Cost of Government Day for 2003 is July 11th. This is 4.5 days later than the 2002 Cost of Government Day of July 6th. As a result, working people must toil on average 193 days out of the year just to meet all the costs imposed by government. In other words, the cost of government consumes nearly 53 percent of national income.

Cost of Government: Trends and Components

Cost of Government Day falls 4.5 days later in 2003 than it did last year and is now at its highest level since 1993. This year's rise marks the third straight increase, after eight straight declines from 1992 to 2000. Since 2000, however, the cost of government has increased nearly 10 percent for working Americans. In 2003, the average American will have to work 17 additional days out of the year to pay for the cost of government than was needed in 2000.

Cost of Government Day 1977 – 2003

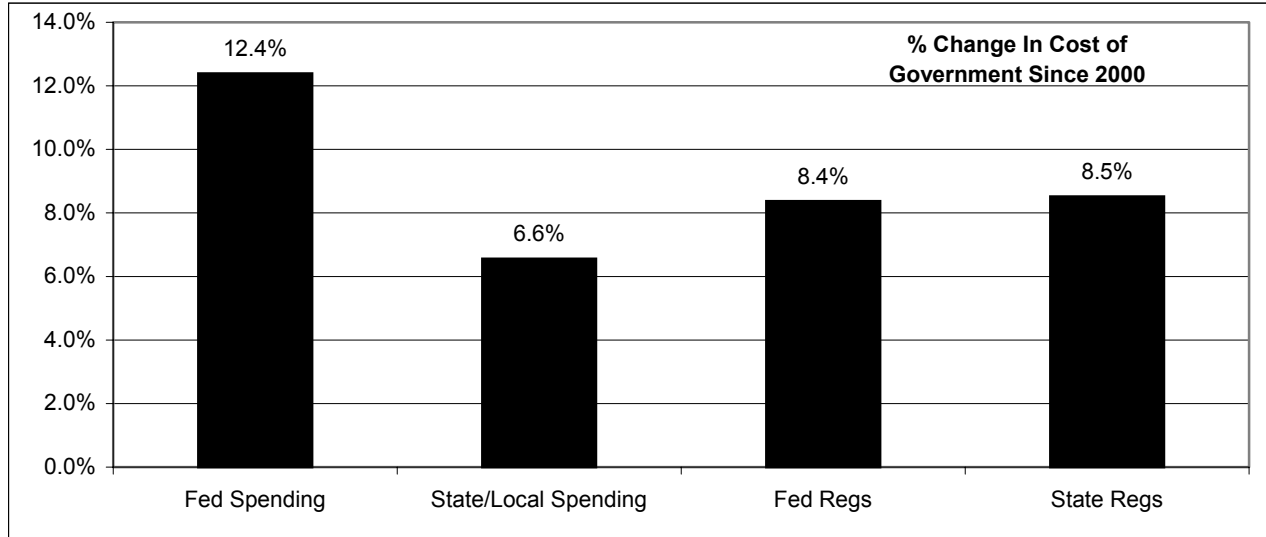


This year's increase in the cost of government was spread across all four variables, which includes federal and state/local spending and federal and state regulations. Total government spending continues to increase in an unprecedented manner, with the war in Iraq driving new federal spending and state and local governments raising taxes to spend more money despite tough economic times. New corporate regulations at the federal level also contributed to the increase in the cost of government.

Federal spending alone accounts for more than 45 percent of the total cost of government. The recent three-year increases in federal spending as a percentage of national income have driven up

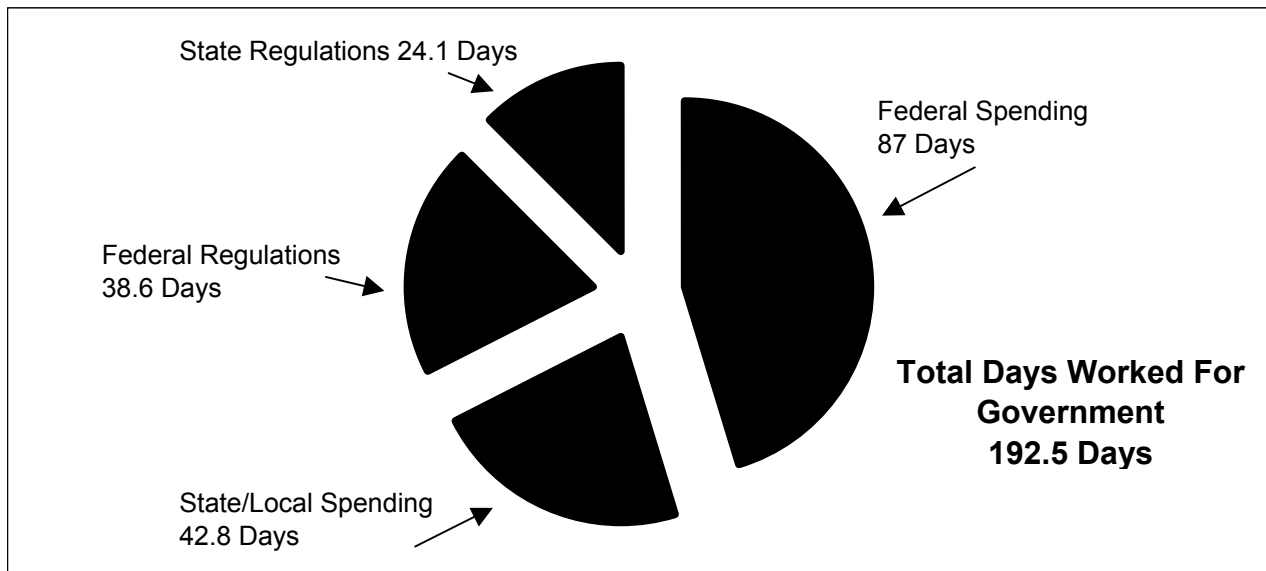
the total cost of government index. Federal and state regulatory costs have increased while state and local governments also spent their accelerating tax revenue gains from the latter half of the last decade. These four variables have all significantly increased since 2000 and have combined to increase the cost of government for the past three years.

Cost of Government Components of Change CY 2000-2003



While federal spending tends to overwhelm regulatory and state and local spending, both state and local spending, and the cost of regulation, should not be considered insignificant. On the contrary, state/local taxes and regulation contribute approximately 55 percent to the cost of government. In fact, as the federal government restrained spending in the latter half of the last decade, state/local government spending and regulatory costs increased as a percentage of national income. These trends have continued during the economic slowdown, while federal spending has exploded. As such, the average American must now work 17 more days out of the year to pay for the cost of government than in 2000.

2003 Cost of Government Components



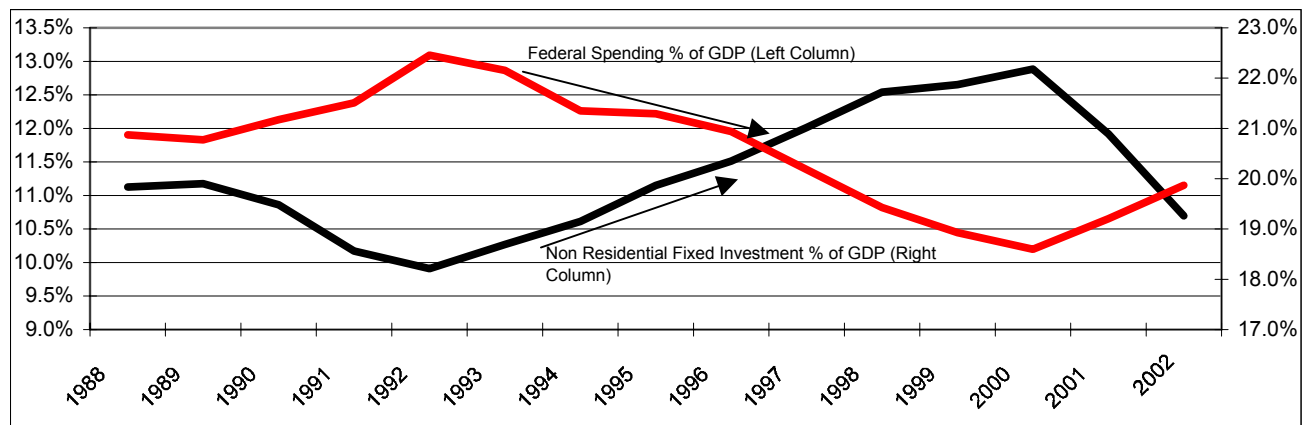
The Importance Of A Smaller Government

Why is lower cost of government desirable? First, because less government costs means more of the money produced by workers, investors and entrepreneurs is left in their hands. That expands the economic freedom of everyone in the economy to choose how to consume, save and invest what he or she produces. It increases personal choice and control. Moreover, expanding the freedom and control of all Americans over what they produce follows sound notions of economic justice.¹

Secondly, less government costs increases the incentives for work, savings, investment and entrepreneurship. That is because with less taken in taxes and regulatory costs, the reward for all these economic activities increases. That in turn will mean more work, savings, investment and entrepreneurship. The end result would be expanded economic growth and opportunity, with more jobs, higher wages and increased personal income overall.

The negative economic effects of government spending cannot be understated. For example, the Office of Economic Policy in the Department of Treasury found that periods of high Federal spending were associated with periods of lower private investment and periods of lower Federal spending were associated with higher private investment. As the chart below demonstrates, this relationship was particularly noticeable over the past decade.

Federal Spending and Investment % of GDP



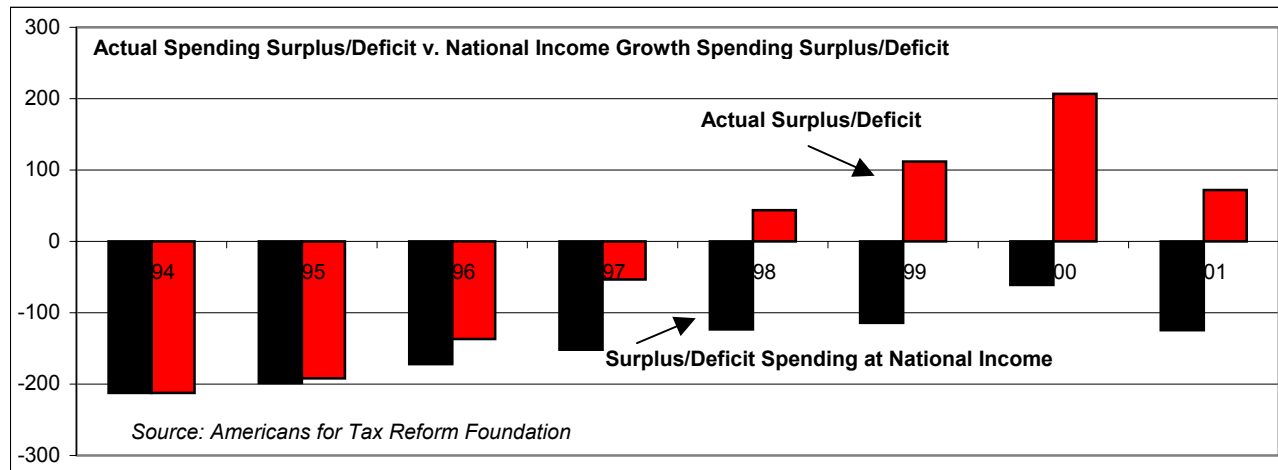
The Congressional Budget Office (CBO) further exemplified this point this spring when presenting the estimated economic effects of President Bush's budget proposals for fiscal year 2004. Essentially, the CBO found the tax cuts proposed by President Bush would spur economic growth; yet, the new government spending initiatives would provide a drag on any growth effects from the tax cuts. As the CBO noted, "Policies that increase demand by raising government or private consumption tend to lower output in the long run, because they tend to eventually decrease investment and the size of capital stock."

The true cost of government is important when examining the fiscal health of governments as well. The federal government has reemerged into a period of deficits after several years of surpluses, while state governments continue to grapple with the fact that the days of increasing spending by 7 to 10 percent are long gone. As the chart below demonstrates, fiscal restraint was the key to the

¹ Robert Nozick, *Anarchy, State and Utopia*, (New York: Basic Books, 1978).

emergence of federal surpluses. Even if the federal government spent at the rate of national income growth, the country would never have entered into a surplus. It was only by reducing government spending, relative to national income, that the country was able to experience surpluses.

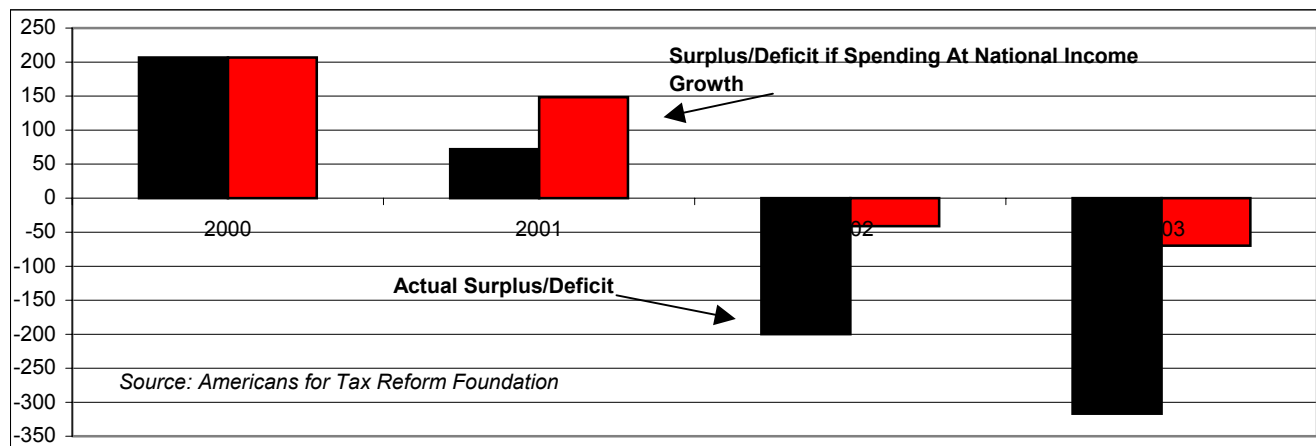
Spending Restraint Led to Federal Surpluses



Even more disturbing is the fact that spending is now increasing *faster* than the rate of national income. The fact that spending has increased for the past three years above the rate of national income (and is expected to continue into the future) indicates the possibility of surpluses reappearing is nonexistent without the same spending restraint that was employed in the mid 1990's by policymakers.

In fact, over the past three years, federal spending has increased 2.5 times faster than national income growth, which has exacerbated the federal budget deficit. As the chart below demonstrates, if spending had been held to the rate of national income growth over the previous three years, the federal deficit would be just \$70 billion, 4.5 times smaller than the actual projected 2003 deficit. In fact, the \$70 billion deficit would reflect the slowdown of the economy and the lost capital gains revenue stemming from the stock market's \$7 trillion lost of value since March 2000. Expected faster economic growth at the end of this year and into 2004 would have put the country back into surpluses if spending had been restrained.

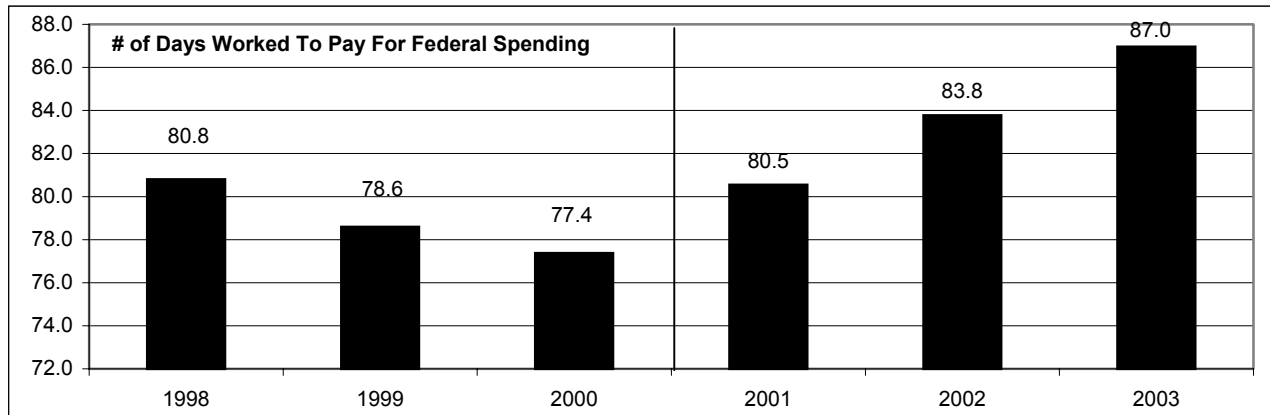
Deficits Would Not Be A Problem If Spending Were Restrained



Federal Spending

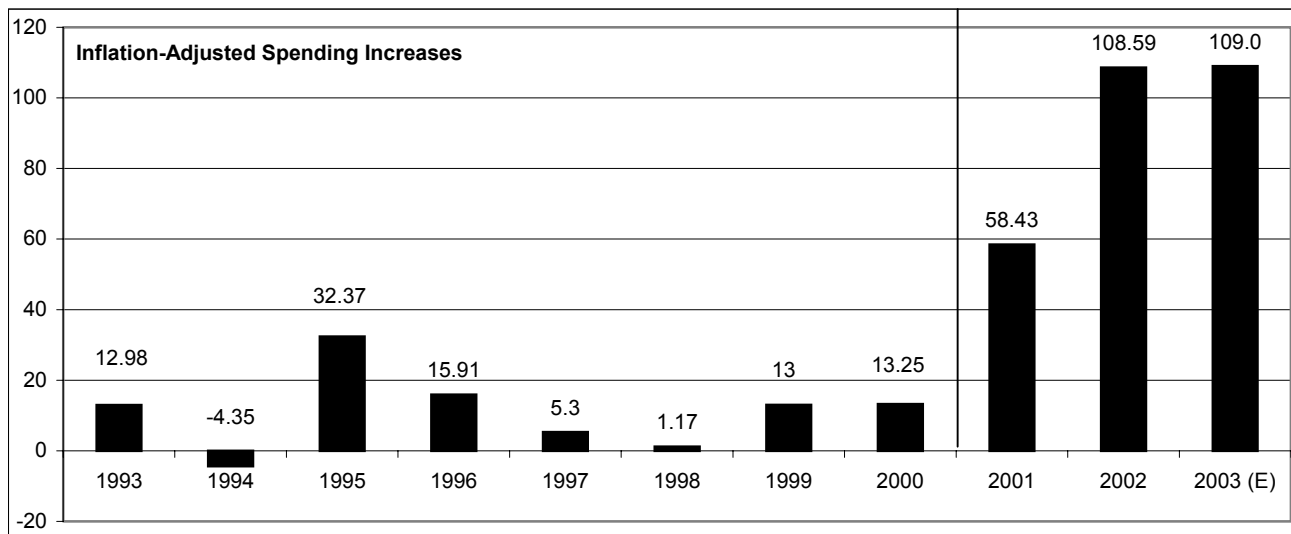
Federal spending continues to be the single largest component of the total cost of government and makes up 71 percent of this year's Cost of Government Day increase. In 2003, the average American will have to work 87 days out of the year to pay for federal spending, which is an increase of 3.2 days over 2002 and roughly 10 additional days than was required in 2000. In total, the average American has worked a cumulative total of 19.2 additional days to pay for the substantial increases in federal spending since 2000.

Since 2000, Americans Must Work 10 More Days A Year To Pay For Federal Spending



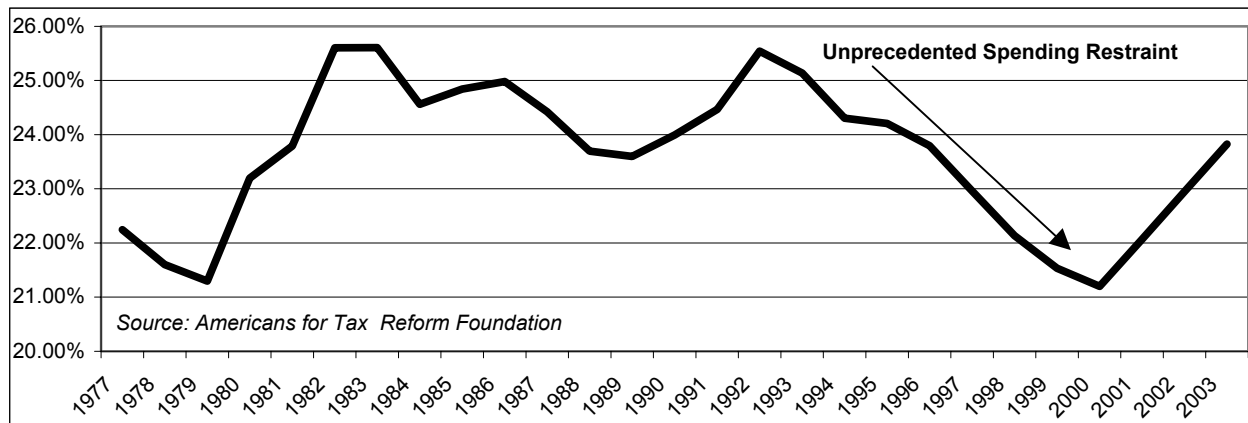
The acceleration of federal spending has been dramatic. The combined inflation-adjusted spending increase amounts for calendar year 2001-2003 more than triples the total amount of federal spending for the previous eight-year period from 1992 to 2000. In other words, in just the past three years, Congress is on pace to increase spending three times the amount than they did in the previous eight years combined.

Annual Federal Spending Increases CY 93-03 (billions of \$2002)



The rise in federal spending over the past three years is in direct contrast to the previous trend when spending as a percentage of national income declined every year from 1993 until 2000. Federal spending (as a percentage of income) declined for eight straight years, which reduced government spending from one out of every four dollars of national income to one out of every five dollars. By 2000, average Americans worked 15 days less of the year to pay off their federal spending burden than in 1992. In just the past three years, however, two-thirds of the unprecedented eight-year decline has been eliminated. Accordingly, nearly 60 percent of the total cost of government increases since 2000 is due to the increases in federal spending.

Federal Spending as a % of National Income



The increase in federal spending above 2002 levels is the result of Operation Iraqi Freedom and the federal bailout for the states. If these one-time spending items were not included in federal spending, the average American would have worked one-half fewer days out of the year to pay for federal spending relative to 2002. Specifically, the \$80 billion supplemental for the war added 3.1 days and \$20 billion for state aid added slightly less than one day of work.

However, it is also important to note, the increases in federal spending are not exclusively related to the War on Terrorism as non-defense discretionary spending and entitlement spending continues to increase at historical levels.

2003 Spending

Federal spending is currently rising 8 percent over last year's spending, which is double the expected increase for national income. There are a number of reasons for this upward surge, some short-term and some long-term.

Driving the downward trend of the federal government costs in the 1990's was the restraint placed on discretionary spending. From 1985 to 2000, non-defense discretionary spending decreased from 3.9 percent of Gross Domestic Product (GDP) to 3.3 percent. However, since 2000, non-defense discretionary spending has moved back to 1985 levels and all the gains achieved from 1985 to 2000 have been completely wiped out over the previous three years.

In fiscal year 2002, non-defense discretionary spending increased 12.3 percent with major increases coming in education, transportation, health, and justice. Moreover, the CBO reports that more than

half of the growth in defense spending resulted from initiatives that were planned or funded before the September 11 terrorist attacks.

Of particular importance, unemployment insurance funding has precipitously grown over the past two years as Congress continues to extend unemployment benefits. In fact, over the past two fiscal years, unemployment benefit spending has doubled and represents the largest percentage increase in the federal budget.

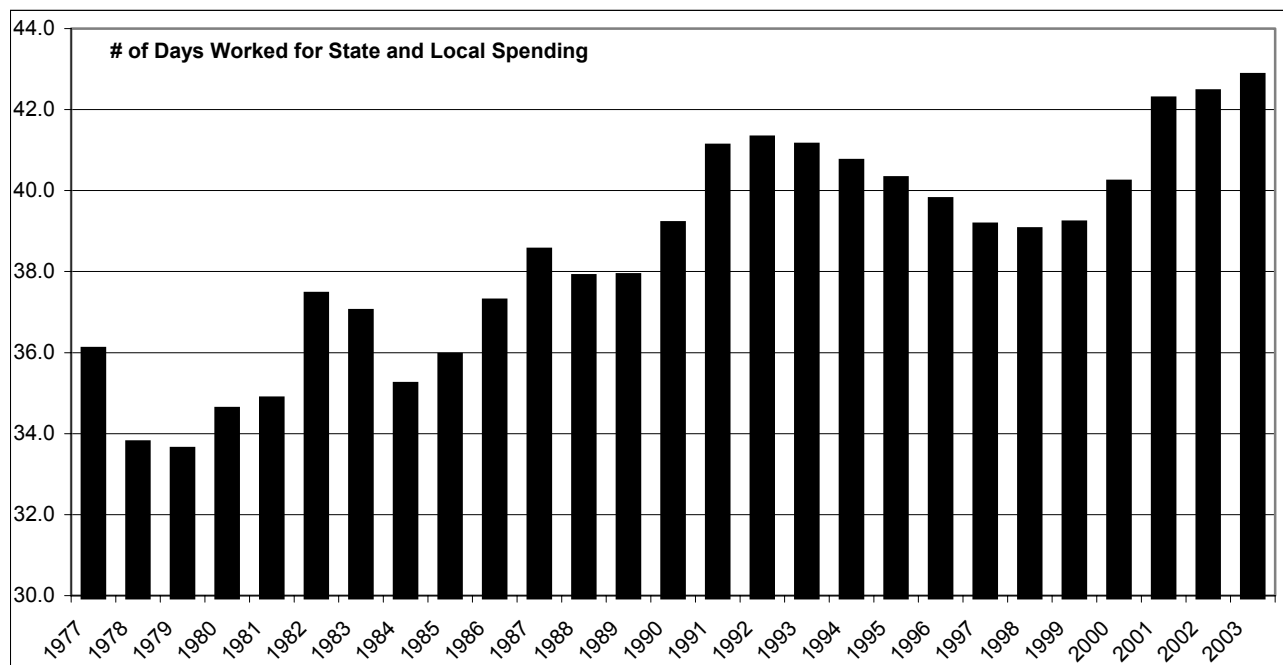
Medicaid and Medicare continue to increase in cost as Congress gets set to add more costs onto these programs in the future. Through the fiscal year 03, Medicare spending is up by 9 percent (on top of last year's 10 percent) and Medicaid spending is up by 10 percent (on top of last year's 15 percent increase). As the nation's demographics shift to an aging population we can expect further upward pressures on Medicare spending. Accordingly, any new prescription drug benefit must be accompanied with real Medicare reform to prevent the budget from bursting in the future.

State and Local Spending

Despite cries of poverty from state capitals all across the country, state and local spending as a percentage of income has now increased for the fifth straight year. After the 1990 recession many states raised taxes to cover their fiscal mismanagement. This, in turn, actually slowed the states' economic recoveries and tax revenues. It was not until 1997 that revenues began to pour into state coffers. The states, in turn, used this new revenue to increase spending significantly.

As such, state and local spending started to exceed the growth of national income. Since 1999, state and local spending has increased from 10.69 percent to 11.73 percent of national income. State and local spending is not at the highest percentage of national income in American history and the average American will need to work 43 days out of the year to pay for this spending.

State and Local Spending At Its Highest Level Ever

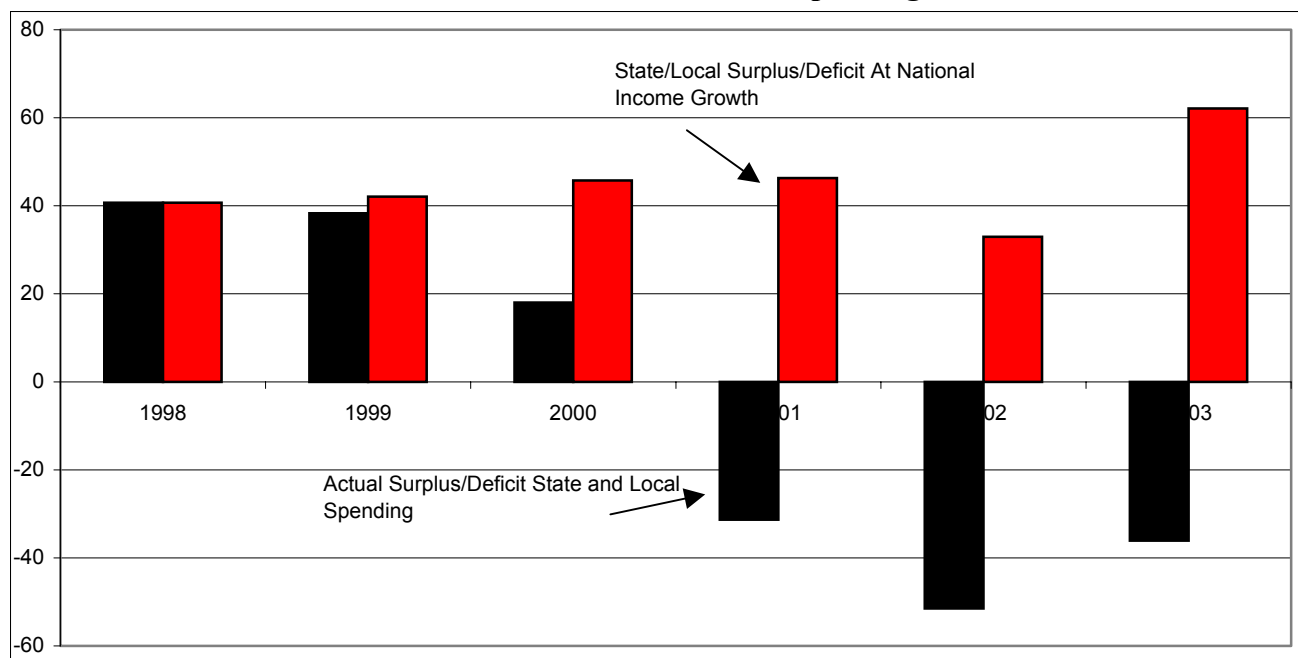


Without question, states have chosen to raise taxes rather than cut spending to fix deficits and this year are expected to increase spending by roughly 5 percent. Higher taxes are in turn fueling additional spending, while recent press reports indicate that state governments are using the \$20 billion of federal bailout money to increase spending, which is further adding to the burden.

States are facing these budget deficits because of massive overspending throughout the 1990's. According to the American Legislative Exchange Council (ALEC) state budgets increased 63 percent from 1990 through 2000. This represents an annual increase of 3.6 percent a year above the rate of inflation.² Moreover, in the latter half of the decade state budgets increased twice as fast as federal spending and nearly four times the rate of inflation.

Similar to the federal government, states are facing deficits because of overspending. Using the Cost Of Government Day benchmark, spending as a percentage of national income, states would not be facing deficits. As the chart below demonstrates, if spending was held to the rate of national income growth starting in 1998, state and local governments would never have entered a period of deficits and in 2003, state and local governments would have had a combined surplus of \$62.1 billion instead of a combined deficit of \$36.1 billion.

State and Local Governments Would Not Have Deficits If Spending Was Restrained



Special Focus: State Government Spending Spree Continues Despite Economic Downturn

In states with elections in 2003, and indeed in most states, factors like state spending, the federal bailout, and tax increases influenced fiscal performance and cost of government ranking.

In New Jersey, spending continues apace. Gov. Jim McGreevey's (D) recently passed fiscal year 2004 budget relies upon temporary sources of revenue, tax increases, and tobacco bonds to increase government spending in 2004. Yet, since the budget was proposed, the state received \$561 million at the courtesy of the federal government and the Legislature learned that the state underestimated

²American Legislative Exchange Council, Crisis in State Spending, 2002.

revenues in the previous fiscal year by \$620 million. Instead of reducing the amount of tax increases with the new revenue, McGreevey proposed more government spending and more tax increases.

Kentucky's governor lobbied for the federal bailout, but failed to pass tax and spending increases in his own Legislature. As chairman of the National Governors Association, Kentucky Gov. Paul Patton (D) succeeded in convincing Congress that the states needed \$20 billion in additional federal aid. But Gov. Patton's efforts in 2003 to balance Kentucky's budget with \$500 million in tax increases met with resistance in the Legislature and in March, the Legislature passed a \$14 billion budget to contain spending, borrow from reserves, and reject tax increases. On March 25, the Legislature overrode three of Patton's vetoes, including one that forced him to eliminate 250 political appointees from his staff. In an open letter to 2003 gubernatorial candidates, Patton took responsibility for Kentucky's budget woes: "These problems arose on my watch and they should be solved on my watch." Taking responsibility allowed Patton to propose tax increases without tarnishing fellow Democrats running for governor.

The Virginia governor and Legislature spar over spending, tax cuts and tax increases. The Virginia Senate failed to muscle the votes necessary to override Governor John Warner's (D) veto of death tax repeal. Ending the 16% assessment on estates worth more than \$1 million would have saved taxpayers \$130 million annually, but Warner's veto on March 24 proved fatal. A 5% tax increase affecting distilled spirits, a new excise tax affecting soft drinks, and freezing the car tax phase-out buttressed Warner's spending habit at least through the elections in November. Speaking of which, Warner plans to wait until after the November elections to recommend tax code revisions, an oft-repeated campaign promise. In February, while embroiled in budget negotiations, Warner said that education spending is such a "compelling" priority that he would make a "direct case" for a tax code revision plan that increases school funding. Two years of waffling don't qualify as direct, and "revisions" that increase spending probably entail tax increases.

In Louisiana, the rules governing general session and modest spending growth worked to improve the state's outlook. The Legislature can only create or increase taxes during a fiscal session; during general sessions such as the one conducted in the spring of 2003, the Legislature must balance the budget by other means. The state House Appropriations Committee revised Governor Mike Foster's (R) \$16 billion spending plan to account for \$289 million in federal bailout dollars, while Commissioner of Administration Mark Drennen revised revenue estimates to include an additional \$400 million more revenue than projected. Before Drennen's announcement, Foster's budget reduced spending 2% from the 2003 fiscal year's budget.

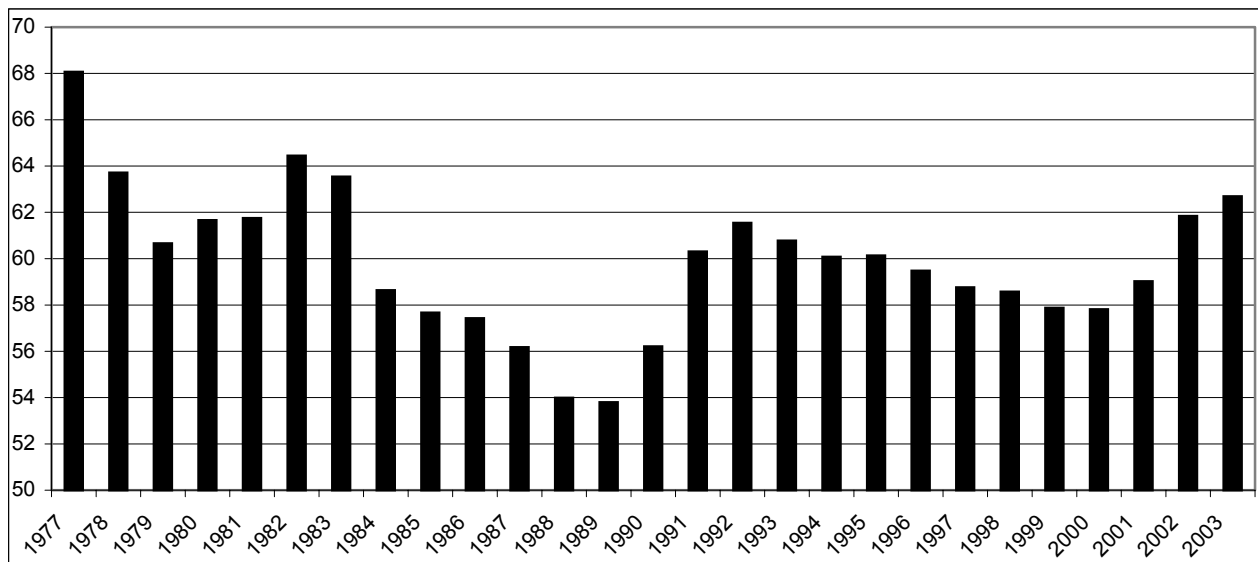
But to end things on a positive note, Mississippi taxes and spending remain conducive to economic growth and prosperity. The Legislature passed a \$3.6 billion budget in early April that contained some spending increases but no tax increases, largely in deference to the upcoming elections. Gov. Ronnie Musgrove (D) took baby steps toward tort reform by working to create an insurance risk pool for medical providers and signing legislation that protects organizers of livestock shows against massive litigation. Musgrove also vetoed spending that would have drained the state's rainy day fund. The Legislature voted to sustain his veto, over the objections of the House Speaker and others.

THE BURDEN OF REGULATION

Regulations as a percent of national income increased for the third straight year and now consumes more than 17 percent of all income produced in the country. In 2003, the average American will have to work 63 days out of the year to pay for all regulations, which is an increase of nearly one day over 2002 and five additional days than was required in 2000. In total, the average American has worked a cumulative total of 10.1 additional days to pay for the substantial increases in regulations since 2000.

The nation's regulatory burden is now at its highest level since 1983. President Reagan came to Washington determined to reduce the enormous regulatory burden placed on American consumers and businesses. As the chart below demonstrates, Reagan was successful in reducing the burden with a slight increase in the early 1990's followed by an eight-year decline in the latter half of the last decade. However, in the past three years regulations have exploded, again reversing all the gains achieved in the mid and late '90's as well as Reagan's gains.

Highest Regulatory Burden Since 1983



ATR estimates federal regulations to cost \$994 billion and state regulations to cost \$621 billion in 2003. The total cost of regulation is consequently estimated to be \$1.6 trillion, which amounts to a hefty 17.2 percent of national income. Consequently, regulatory costs alone are consuming more than one out of every six dollars produced by the American people. This regulatory burden needs to be reduced to enhance economic prosperity and freedom.

Of particular importance is the knee-jerk corporate regulations designed in the wake of Enron. Congress sought to demonstrate that they were taking action, yet, in the process designed a regulatory nightmare that is squeezing companies and ultimately investors. Recent press reports have indicated a number of companies have switched from public to private companies because the regulatory burden has become so oppressive from the new laws.

Moreover, the cost of tax compliance continues to grow. The Tax Foundation estimates federal tax compliance in 2003 will be \$203.4 billion. Tax compliance has increased every year since 1997,

resulting in a 24 percent increase over the past six years. Furthermore, tax compliance costs in 2003 will exceed the revenues of America's second largest company ExxonMobil.³

ATR's estimate of regulatory costs includes only the cost of complying with regulations. This includes the material resources and labor needed to carry out compliance with this regulatory requirement. For example, if a regulation requires new pollution control equipment for power plants, compliance costs include the costs of manufacturing, installing, operating and maintaining the equipment.

This leaves out all of the negative economic effects of the costs of regulatory requirements. These added costs slow the economy, as they introduce inefficiencies and distortions, and reduce the economic reward left over for productive activity. The new costs may prevent new firms from entering the market, or stop existing ones from expanding. They may even force some existing firms out. The end result is less overall output, fewer jobs, lower wages and lower overall economic growth.

These costs may be as large as the direct compliance costs of regulation. Economists at Washington University at St. Louis, a leader in the study of regulation, have estimated these costs to be over \$1.5 trillion per year in current dollars. The full, true burden of regulatory costs may consequently be twice as large as estimated above. This makes reform to reduce regulatory costs twice as urgent.

Special Focus: Regulatory Horror Stories

Cigarette Laws in New York City:

The nanny-state extended to New York City last December when its residents adopted Mayor Mike Bloomberg's (R) ban on tobacco smoking. New York City is the most recent jurisdiction among 125 nationwide to ban smoking. The new anti-smoking law toughens existing legislation that banned smoking in the workplace to include virtually all 14,000 bars and restaurants across the city. The fine for lighting up: \$200 to \$400 for the first infraction; up to \$1,000 thereafter.

Businesses around the city and their workforce are suffering because of the ban. News reports have put the drop in restaurant and bar sales at as much as 50 percent since enactment on April 1. A *New York Post* randomized survey of 50 establishments found a median loss of 30 percent for sales. With drops in revenue, wait-staff are receiving less compensation and a host of establishments have cut their workforce.

The ban has also driven up operational costs for businesses. Clubs now hire doormen to frisk patrons for cigarettes to avert the fine. Other restaurants and lounges have established special closed-door smoking areas where employees do not enter in an effort to keep their regular customers. And now the cost of compliance has a human toll. Last April a security officer was stabbed-to-death after attempting to escort a group of smokers out of an upscale bar.

Sources: MacIntosh, Jeane, "Cig Ban Leaves Lot of 'Empties,'" *New York Post*, 12 May 2003; available from <http://www.nypost.com/news/regionalnews/75483.htm>; Internet.

³ Tax Foundation, *Tax Freedom Day 2003*. www.taxfoundation.org

Fish Survive, Firemen Perish:

In 2001 four firefighters unnecessarily lost their lives fighting the Thirty Mile Fire in Okanogan National Forest in Winthrop, Washington. The growing inferno had unexpectedly trapped the four firemen. As the firefighters waited for help, a bureaucratic battle got under way on whether using water from the nearby Chewuch River would endanger an EPA-protected fish that inhabited the site. Nine hours after the request, a helicopter dispatch crew was granted permission to use the river. Yet the blaze had grown to such force that an emergency helicopter team was unable to dose the fire and rescue the firemen. Earlier authorization and less regulation perhaps would have saved the firefighters.

Sources: The National Center for Public Policy Research, *Shattered Dreams: One Hundred Stories of Government Abuse*, 4th ed. (Washington, D.C.: The National Center for Public Policy Research, 2002), 7-8.

“End Regulatory Abuse in U.S.,” *Telegraph Herald (Dubuque, Iowa)*, 6 April 2003.

Financing Forest Fire Prevention

Seven million acres of federal forest were charred in 2000—the most lost to fires since 1968. The reasons for the spike are debatable. Drought, high winds and temperatures, and scheduled burning of areas to fight fires are surely contributors. Another less obvious contributor is the buildup of small trees, scrubs and dry deadwood—so-called “excess fuels”—that inflame the fires. There is evidence that clearing the forest of excess fuels can reduce the susceptibility of fires from forming and spreading. As a result, funding for federal fuel source treatment has surged from about \$10 million a year in 1990 to about \$136 million in 2001.

Fuel source treatment, however, has not had a sufficient impact on reducing catastrophic forest fires to justify its funding. Much of this failure has to do with cumbersome environmental regulations that forbid thinning in needed areas. Indeed, there is an effort within the US Forest Service to restore forests to their supposed thick, pristine condition enjoyed in the 19th century. This practice has not been without consequences. At the site of the Squires Peak Fire near Medford, Ore., in 2002, 80 of the 400 acres not thinned either because of restrictions or lawsuits caught fire and spread to 2,800 acres at a cost of \$2.2 million to suppress.

Sources: Robert H. Nelson, “The Forest Service’s Tinderbox,” *Regulation* 23, No. 4 (Winter 2000): pp. 32-5.

Randal O’Toole, “Money to Burn?” *Regulation* 25, No. 4 (Winter 2002-2003): 16-20.

Ibid., “Why Healthy Forests Initiative Won’t Work,” *Record (Bergen County, N.J.)*, 29 Aug., 2002, Sec. L11.

STATE-BY-STATE BREAKDOWN

Below is the Cost of Government Day for each state based on the varying government burdens applying in each state. Federal spending burdens vary because relatively higher burdens are borne by states with relatively higher incomes. Of course, state and local spending burdens vary by state as well.

The highest state Cost of Government Day by far is in Connecticut. The day there falls 23.6 days later than the rest of the country, coming on August 3rd. This is nine days later than Cost of Government Day for the second highest state, Massachusetts. The burden in Connecticut is so onerous both because it has very high relative incomes, getting a big hit from the federal income tax, and because it has high state and local taxes.

The third highest Cost of Government Day state is New York, followed by California, Washington and New Jersey which all require 200 days of work for the government in one year.

	# Of Days Worked For Government	2003 Cost of Government Day	Rank in 2003
United States	192.5	July 11th	--
Alaska	168.2	June 17th	1
New Mexico	173.7	June 22nd	2
Tennessee	176.8	June 25th	3
Alabama	176.9	June 25th	4
Oklahoma	177.1	June 26th	5
West Virginia	177.2	June 26th	6
Louisiana	178.3	June 27th	7
Mississippi	178.4	June 27th	8
South Dakota	179.3	June 28th	9
South Carolina	179.4	June 28th	10
Delaware	180.3	June 29th	11
Arkansas	180.6	June 29th	12
Montana	180.6	June 29th	12
Kentucky	180.7	June 29th	14
Iowa	183.0	July 1st	15
North Dakota	183.1	July 2nd	16
Missouri	184.1	July 3rd	17
Nebraska	184.2	July 3rd	18
Texas	185.2	July 4th	19
Kansas	185.4	July 4th	20
North Carolina	185.4	July 4th	20
Hawaii	185.6	July 4th	22
Pennsylvania	186.5	July 5th	23
Indiana	186.6	July 5th	24
Ohio	186.7	July 5th	25
Idaho	186.7	July 5th	25
New Hampshire	187.2	July 6th	27
Florida	187.5	July 6th	28

Virginia	187.6	July 6th	29
Georgia	188.9	July 7th	30
Oregon	188.9	July 7th	30
Utah	189.1	July 8th	32
Maryland	190.1	July 9th	33
Michigan	190.1	July 9th	33
Arizona	190.2	July 9th	35
Vermont	190.2	July 9th	35
Wisconsin	192.6	July 11th	37
Nevada	193.5	July 12th	38
Illinois	193.6	July 12th	39
Wyoming	194.6	July 13th	40
Colorado	194.7	July 13th	41
Maine	196.4	July 15th	42
Minnesota	197.4	July 16th	43
Rhode Island	197.4	July 16th	43
New Jersey	201.9	July 20th	45
Washington	201.9	July 20th	45
California	204.3	July 23rd	47
New York	204.6	July 23rd	48
Massachusetts	207.8	July 26th	49
Connecticut	216.1	August 3rd	50
Washington DC	214.2	August 2nd	-

